UNITED STATES DISTRICT COURT EASTERN DISTRICT OF NEW YORK

STEVEN SCHREIBER, * Case No. 15-CV-6861 (CBA)

individually and derivately on behalf of Two Rivers Coffee, LLC,

Plaintiff, * Brooklyn, New York

* March 2, 2018

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EMIL FRIEDMAN, et al.,

*

Defendants.

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TRANSCRIPT OF CIVIL CAUSE FOR STATUS CONFERENCE
BEFORE THE HONORABLE JAMES ORENSTEIN
UNITED STATES MAGISTRATE JUDGE

APPEARANCES:

v.

For the Plaintiff: JAY P. NELKIN, ESQ.

CAROL NELKIN, ESQ. Nelkin & Nelkin PC

3730 Kirby Drive, Suite 1200

Houston, TX 77098

For Emil Friedman, PAUL HANS SCHAFHAUSER, ESQ.

Defendant: Chiesa Shahinian & Giantomasi

РC

11 Times Square

31st Floor

New York, NY 10036

For E&J Defendants: DAVID B. GRANTZ, ESQ.

Meyner & Landis LLP

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Newark, NJ 07102

Proceedings recorded by electronic sound recording, transcript produced by transcription service.

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and Salcedo, Defendants: RICHARD A. FINKEL, ESQ.

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New York, NY 10016

For Michael Devine,

Defendant:

RICHARD B. FELDMAN, ESQ.

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New York, NY 10176

For Geoffrey Hersko,

Defendant:

ROBERT J. BERGSON, ESQ. Abrams Garfinkel Margolis

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For Solomon Birnbaum, Crazy Cups, 26 Flavors, Office Coffee Services &

Single Serve Beverages Dist, Suite 2020 Defendants:

JEFFREY C. RUDERMAN, ESQ. Cyruli Shanks & Zizmor LLP

420 Lexington Avenue

New York, NY 10170

For Interested Party

Mayer Koenig:

NICHOLAS J. FASO, ESQ. JASON M. DiMARINO, ESQ.

Whiteman Osterman & Hanna LLP

One Commerce Plaza

Suite 1900

Albany, NY 12260

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 1
             (Proceedings commenced at 12:33 p.m.)
                  THE COURT: Okay. I'm on the record in Schreiber
 2
 3
        against Friedman, 15-CV-6861.
                  Can we have appearances, please?
 4
                  MR. NELKIN: Good afternoon, Your Honor. Jay Nelkin
 5
        and Carol Nelkin for the plaintiff.
 6
 7
                  THE COURT: Good afternoon.
                  MR. SCHREIBER: Steven Schreiber.
 8
                  THE COURT: Mr. Schreiber.
 9
                  MR. KOENIG: Mayer Koenig.
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11
                  THE COURT: Mr. Koenig.
12
                  MR. FASO: Good afternoon, Your Honor Nicholas Faso
13
        Whiteman Osterman & Hanna for Mayer Koenig.
14
                  THE COURT: How do you spell your name, sir?
15
                  MR. FASO: F, as in Frank, A-S-O.
16
                  THE COURT: Good afternoon.
17
                  MR. DiMARINO: Jason DiMarino, also from Whiteman
18
        Osterman & Hanna.
19
                  THE COURT: Good afternoon.
20
                  MR. SCHAFHAUSER: Good afternoon, Your Honor. Paul
2.1
        Schafhauser, Chiesa Shahinian & Giantomasi for Emil Friedman.
                  THE COURT: Good afternoon.
22
23
                  MR. GRANTZ: Good afternoon, Your Honor. David
24
        Grantz, from the law firm of Meyner & Landis on behalf of the
        E&J defendants and (indiscernible).
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                  THE COURT: Good afternoon.
                  MR. FELDMAN: Richard Feldman on behalf of Michael
 2
 3
        Devine (indiscernible).
                  THE COURT: Afternoon.
 4
                  MR. BERGSON: Good afternoon, Your Honor. Rob
 5
        Bergson, Abrams Garfinkel Margolis Bergson, on behalf of
 6
 7
        Geoffrey Hersko.
 8
                  THE COURT: Good afternoon.
 9
                  MR. FINKEL: Good afternoon, Your Honor. Richard
10
        Finkel for Ezell, Rivera, and Salcedo.
11
                  THE COURT: Good afternoon.
12
                  MR. RUDERMAN: Good afternoon, Your Honor. Jeffrey
13
        Ruderman, Cyruli Shanks & Zizmor, on behalf of defendant
14
        Birnbaum.
15
                  THE COURT: Good afternoon. All right. Welcome
16
        back everybody.
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                   So I know we had all hoped to avoid the need to
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        appear today, and I have Mr. Nelkin's letter filed earlier
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        today.
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                  So it seems like we've got a free rider problem
2.1
        that's getting in the way of the settlement. I am happy to be
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        quided by what you all think makes sense.
23
                  If the settlement can't be achieved because of Mr.
24
        Koenig's position, we'll go forward with the litigation and
25
        we'll talk about Mr. Koenig's role, perhaps as a necessary
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1 party, which would of course, you know, share the burdens that 2 you're all bearing with him. 3 If you prefer to focus your efforts on settlement, I'm open to discussing that in light of what's in the letter, 4 5 but you guys tell me. Where do we stand? UNIDENTIFIED SPEAKER: Well, Your Honor, I mean, the 6 plaintiff and all the defendants have been working diligently 7 (indiscernible) to avoid the need for this hearing today. 8 9 THE COURT: Yes. 10 UNIDENTIFIED SPEAKER: We agree that we do have a free rider problem. We felt --11 12 THE COURT: And the solution is to stop making it a 13 free ride. 14 UNIDENTIFIED SPEAKER: Right. And, well, and we had 15 actually tried a different approach, which was to, from the 16 outset we thought we had an agreement with -- we think we did have an agreement with the -- Mr. Koenig, and now it appears 17 18 that Mr. Koenig, in fact, that he will have not only a free 19 ride but he won't actually take the horse and shoot the rider 20 because he appears to be unwilling to allow for the 21 distribution of proceed to Mr. Schreiber. 22 And he also appears unwilling to do a settlement, 23 which poses a problem for the --24 THE COURT: Walk me through, and anybody tell me

what the problem is going to be if you all settle on the terms

6 1 that you agree to. UNIDENTIFIED SPEAKER: So, I believe the original 2 3 problem from the plaintiff's perspective was that Mr. Koenig, having in our opinion, agreed to how the proceeds would be 4 distributed, would not -- is that's (indiscernible). 5 6 THE COURT: No, please. I just have a question I'm trying to figure out. If you just ignore Mr. Koenig's 7 8 position and say, we have an agreement among ourselves, what 9 can't you accomplish? 10 UNIDENTIFIED SPEAKER: So I believe, and Mr. 11 (inaudible) may be able to brief this issue better than I can, 12 but my impression is, is that we could settle all of the 13 derivatives as the direct claims and the derivative claims 14 that my client has, and plaintiff would be prepared to 15 (inaudible) to that agreement. 16 I believe, and I believe that the Court could wipe 17 out any derivative claim from a res judicata approach. I 18 believe Mr. Schafhauser may be concerned as to whether or not 19 Mr. Koenig could come up with some creative --20 THE COURT: Well, let me turn to Mr. Schafhauser. 2.1 What's going to happen from your perspective if you don't get 22 Mr. Koenig to sign on? 23 MR. SCHAFHAUSER: If I don't get Mr. Koenig to sign 24 on and I don't get a release from him, then I face -- Mr.

Friedman faces the prospect of having this same case brought

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 1
                  MR. SCHAFHAUSER: -- now have met. And I can't
 2
        assess quite honestly, Your Honor, whether Mr. Koeniq is
 3
        serious about pursuing claims against my client or not. I
        haven't had a discussion with him. I found out about this,
 4
        this week.
 5
                  THE COURT: So, Mr. --
 6
 7
                  MR. SCHAFHAUSER: But in all candor, Your Honor, for
 8
        five and a half months I thought I -- you know, we had a
        normal (indiscernible).
 9
10
                  THE COURT: No, no, you guys have been working at
11
        it. I get it.
12
                  All right. So, Mr. Faso or Mr. DiMarino, what is
13
        you want to accomplish here?
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                  MR. FASO: Well, Your Honor, respectively we don't
15
        agree with (indiscernible).
16
                  THE COURT: All right. Well, respectfully I do.
                                                                    So
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        tell me -- answer my question. What would you like to
18
        accomplish?
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                  MR. FASO: Well, we are interested in settlement.
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        Absolutely And we don't want to be (indiscernible) about
2.1
        that. We have some questions as to whether the settlement is
22
        reasonable and in the best interest of the corporate entity.
23
                  THE COURT: Where have you been for the last few
24
        years?
25
                  MR. FASO: I understand we've been monitoring the
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that. If you can work something out in the next week or two, good for you. But --

MR. FASO: Your Honor, it's my understanding -THE COURT: Excuse me. But if you want to come in
and reap the benefits of the work that these folks have all
been doing, without your client having to pay his fair share,
you might not find that they're willing to share with you in
that regard.

So if they can't, you know, your client has a right to do that. And they have a right to make sure that your client is part of this litigation. We'll do that.

Is there some relief you want from me, Mr. Faso?

MR. FASO: Well, Your Honor, if you're willing to

consider approving the settlement we'd like an opportunity to

submit our objections in writing.

THE COURT: What -- is there anything that the Court needs to approve? It's a private settlement.

MR. FASO: The derivative actions, our understanding is that the Court has to approve the settlement to make sure
THE COURT: What do you mean derivative action?

We've got a complaint that's in this court. It will be settled. There will be a stipulation of dismissal. Does anybody think, who is a party, that there would be anything for the Court to approve?

MR. NELKIN: Well, Your Honor, I think as a

practical matter, there is no settlement right now without his client's signature.

THE COURT: But does the Court need to sign off on the fairness, the procedural propriety of it, or is it just a matter of ending the litigation by a stipulation of dismissal?

MR. NELKIN: I believe that the direct claims do not require any -- any approval. I believe that it's possible to read the rules as requiring the Court to approve the dismissal of the derivative claim.

THE COURT: When you say the derivative claim, the claim on behalf of the company?

MR. NELKIN: Yes.

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THE COURT: I see.

MR. NELKIN: However, and so -- but Mr. Faso is assuming that there is a settlement. And right now I believe it's Mr. Schafhauser's position that unless there's a release and a signature, there is no settlement.

THE COURT: Uh-huh.

MR. NELKIN: So there's noting for us to approve.

So we either go forward with the litigation, or we reach some sort of an agreement as to how we're all going to resolve it.

But I don't think, and under that scenario I believe that all parties who could possibly object would approve it, so there wouldn't be anything for the Court to need to approve because everyone would approve.

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                  THE COURT: Right. To the extent that there is a
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        concern on the defendant's side about potential litigation,
        obviously, the clock is ticking on that. We've been at this
 3
        for a couple years. I guess a little over two years.
 4
                  So we've got presumably what -- when is the statute
 5
        going to run on the claims that have been asserted?
 6
 7
                  UNIDENTIFIED SPEAKER: Well, Your Honor, one thing I
 8
        might suggest is perhaps Your Honor could ask Mr. Faso to put
        forth all possible direct claims that his client has. If he
 9
10
        has none, then I believe that we're --
11
                  THE COURT: Can I force him to do that?
                  UNIDENTIFIED SPEAKER: Well he -- part of his case.
12
13
                  THE COURT: He's not. What you're worried about is
14
        a claim that he will bring, right?
15
                  UNIDENTIFIED SPEAKER: Correct. Correct.
16
                  THE COURT: When is the statute going to run out on
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        these claims?
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                  UNIDENTIFIED SPEAKER: Well, some -- I think RICO is
19
        four years.
20
                  UNIDENTIFIED SPEAKER: And may have run already.
2.1
                  UNIDENTIFIED SPEAKER: But if, you know, it depends.
22
                  THE COURT: Right.
23
                  UNIDENTIFIED SPEAKER: Your Honor, my position is
24
        very simple.
25
                  THE COURT: Yeah.
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2.1

UNIDENTIFIED SPEAKER: My position is we were before Your Honor in September. We agreed on the terms then. We've done yeoman's work.

I think Mr. Nelkin will agree, we've spent more time than any of us would have imagined to even more further perfect the terms in the attached (indiscernible).

I'm not going to bore you with all the details, but we had accountants look at this, we had tax lawyers looking.

We had all kinds of people look at this. And spent on both sides I think it's fair to say, a lot of time and money on it.

But I think we have a view that this is an agreement that has been reached. I mean, you know, yesterday we agreed that -- I think, again, not to put words in counsel's mouth, but there's no issues as to the settlement -- the form of the settlement agreement.

THE COURT: Uh-huh.

UNIDENTIFIED SPEAKER: I literally spent time on the phone with --

THE COURT: Again, you're in agreement with them.

So look, I'm trying to figure out, when is the statute going to run? Yeah, it's different for different claims. I think the longest is probably RICO.

UNIDENTIFIED SPEAKER: Well, I think there's a breach of -- there's arguably a breach of contract, breach of fiduciary duty claim.

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                  THE COURT: Which is going to be when?
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                  UNIDENTIFIED SPEAKER: It's six years in New York, I
 3
        think.
                  UNIDENTIFIED SPEAKER: Which also gives us a direct
 4
        fraud claim, which is six years in New York.
 5
                  THE COURT: Six? Okay, going back to '15.
 6
                  UNIDENTIFIED SPEAKER: Right.
 7
                  THE COURT: Presumably.
 8
                  UNIDENTIFIED SPEAKER: So we have until 2021 where
 9
10
        Mr. Koenig can do things.
11
                  THE COURT: Can do things. Right.
12
                  And it's not my first choice, necessarily, but I'm
13
        wondering if the absence of a better alternative, there is a
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        way forward for the parties to this case to go forward with
15
        things as they've settled to basically put that in motion,
16
        transfer of money, transfer of rights, and put the case on
17
        hold. And everybody, you know, preserves their rights to go
18
        forward in the litigation if Mr. Koenig comes in and upsets
19
        the apple cart by asserting new claims.
20
                  But at that point, obviously, for him to do that
2.1
        effectively he'd need to share in exchange of information that
22
        you've achieved up to now at great cost to yourselves, and
23
        that would implicate the need for cost sharing.
24
                  UNIDENTIFIED SPEAKER: Agreed, Your Honor.
25
                  THE COURT: And if he never does it then, at the
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2.1

end, you know, when the statute runs out, you say okay, now we have a stip.

UNIDENTIFIED SPEAKER: And that's the -- that is a very good possibility too.

Your Honor, if I may? What I would, in my heart of hearts like to see, because we literally have everything done.

There is only -- we've done Exhibits A through O, and we've agreed on all of those except for two exhibits. And the reason those two exhibits aren't done is that there's two versions of those exhibits.

One version is if Mr. Koenig is a participant, and one version is if Mr. Koenig is not a participant. That's holding up the signing of a document that my client would otherwise be prepared to sign right now.

What I would like to see, in other words, is I'd like to see these parties, however they need to do it, I don't know the details. I found out about it this week only, but I'd like to see them resolve their issues.

And if Mr. Nelkin believes he has an enforceable agreement with Mr. Koenig, perhaps the Court can entertain whether that agreement is enforceable, and that resolves the whole case (indiscernible).

We were here on (indiscernible). I believe there was even a phone call made (indiscernible).

THE COURT: Yeah.

You know, he'll testify, and you'll all testify and -- no, you

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 1
        all, but you know. As needed, we'll develop the record.
 2
                  But, Mr. Koenig, am I right that you were contacted
 3
        telephonically during the settlement conference?
                  MR. KOENIG: I was. I did not give an answer on the
 4
        spot. I requested to obtain legal counsel (indiscernible).
 5
                  THE COURT: Oh, that's entirely different from what
 6
 7
        I recall, but you know, if we need to, we'll develop the
 8
        record further on that.
                  MR. KOENIG: (Indiscernible.)
 9
10
                  THE COURT: But look, you know, I'm happy to give
11
        you guys a week or so to work this out as best you can. Then
12
        we'll move forward.
13
                  MR. FASO: Your Honor, I think one point that you
14
        briefly touched on is that it is our position that the Court
15
        does need to include the settlement (indiscernible).
16
                  THE COURT: You're not a party here. So, I don't --
17
        look, you may well become a party and at that point I'll have
18
        to worry about what your position is.
19
                  But right now I just need to know if we have a
20
        settlement or not.
2.1
                  MR. FASO: Because of that procedure --
22
                  THE COURT: Yes.
23
                  MR. FASO: -- (indiscernible) --
24
                  THE COURT: Yes.
                  MR. FASO: -- as a member of the LLC we have an
25
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2.1

opportunity to object to the settlement, despite not being a party.

THE COURT: There's no settlement to object to.

Mr. Faso, I get it. You've got a client who finds himself in a position of leverage to extract some value that he might not otherwise have if you were a party here. God bless you.

You want to do the best for him that you can, but let's not pretend it's something that it isn't.

MR. FASO: And, Your Honor, I think our objection should be clear. The objection is not --

THE COURT: Objection to what? What is going on in this court now to which you object?

MR. FASO: To the proposed settlement.

THE COURT: There is no proposed settlement.

MR. FASO: We received one last night.

THE COURT: There is nothing pending in this court that is a proposed settlement. I have not looked at the rule about this. I'm not sure that there has to be. Maybe there does. I don't know.

Maybe it can properly be just done by virtue of a stipulation dismissal. I don't know. But right now, there's nothing pending to which you have any reason to object because they haven't, apparently, settled. And they may not.

And if they don't, I'm going to set an expedited

2.1

schedule and you know, part of that schedule will include how best to bring in your client and then move forward with the hearings that we need to continue, and the discovery that we need to continue.

And a threshold issue will be to get your client up to speed, you know, what should his allocation of the costs borne to date be. So, we'll talk about that.

But I'm sure that in the interim, before we get to that point, you want to work with the other counsel here to see if he can avoid incurring those burdens.

MR. FASO: (Inaudible.)

THE COURT: All right. Anything else you want to tell me?

MR. FASO: We've had some difficulty engaging with opposing counsel, but I think after this conference today, Your Honor, that all parties will work in good faith and sit down and hammer out the settlement.

THE COURT: Well, if not before, better after.

UNIDENTIFIED SPEAKER: Your Honor, I (indiscernible).

THE COURT: Well, there's no question there's been trouble communicating. Who's responsible for that trouble communicating I'm not in a position to know right now. I don't think I need to. But why don't I suggest this?

Let's come up with a schedule where, at least in the

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1
        first instance, the conversations have to be among the lawyers
 2
        on this -- at this table, on the plaintiff's side.
 3
                  So, do you want me to impose a schedule where you
        all sit down so you don't have to worry about a problem
 4
        communicating? Or do you think that like reasonable
 5
        professionals, you can manage that on your own?
 6
 7
                  UNIDENTIFIED SPEAKER: I don't think a schedule is
 8
        necessary.
 9
                  THE COURT: Okay. So you'll talk to each other.
                  What do you think makes sense? A week or two before
10
        we get back together?
11
12
                  I want to make sure that whatever we're going to do,
13
        we get on track to do it before the next holiday interferes
14
        with a lot of your schedules.
15
                  UNIDENTIFIED SPEAKER: Your Honor, I think it would
16
        be around the 21st or the 22nd. That would be preferable to
        the plaintiff.
17
18
                  THE COURT: Anybody have a problem with either of
19
        those dates?
20
                  (No audible response.)
2.1
                  THE COURT: No?
22
                  UNIDENTIFIED SPEAKER: I don't believe so. I just
23
        don't know what my kids' vacation week is. It sounds like
24
        (indiscernible), but I don't believe so, Your Honor.
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But in all candor, I think this is an issue between

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21
 1
        that side of the table.
 2
                  THE COURT: It may well be. It may well be. I
 3
        assume --
                  UNIDENTIFIED SPEAKER: (Indiscernible.)
 4
                  THE COURT: Yeah, yeah. Okay, look --
 5
                  UNIDENTIFIED SPEAKER: Everybody on this side is
 6
 7
        ready to sign.
 8
                  UNIDENTIFIED SPEAKER: Yeah, Your Honor.
 9
                  THE COURT: Okay.
                  UNIDENTIFIED SPEAKER: We have a deal, as far as
10
11
        we're concerned.
12
                  THE COURT: I get it.
1.3
                  UNIDENTIFIED SPEAKER: Subject to that.
14
                  THE COURT: To the extent that what they come up
15
        with, if they come up with something, requires some tweaking
16
        just of the form of the release or something like that.
17
        You'll need to be involved.
18
                  But more importantly, to the extent that we can't
19
        resolve this, we do need everybody back in court at the next
20
        session to, you know, plan for the litigation.
2.1
                  All right. So 21st and 22nd were the dates. Does
22
        anybody have a problem with either one of those? Sounds like
23
        no?
24
                  UNIDENTIFIED SPEAKER: Just if, I don't have a
25
        calendar in front of me. But if either of them is a Friday,
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22
 1
        I'd prefer one that's on --
                  THE COURT: No, no, the 21st and 22nd.
 2
 3
                  UNIDENTIFIED SPEAKER: It's Wednesday and Thursday.
                  THE COURT: Wednesday and Thursday.
 4
                  UNIDENTIFIED SPEAKER: And then, no, I don't have a
 5
        problem.
 6
 7
                  THE COURT: Okay. Why don't we plan Thursday the
        22nd at 10:30?
 8
 9
                  All right. Anything else anyone thinks we can
10
        accomplish today?
11
                  UNIDENTIFIED SPEAKER: No, Your Honor. Thank you.
12
                  THE COURT: Yeah. And --
13
                  UNIDENTIFIED SPEAKER: Your Honor.
14
                  THE COURT: Best of luck working things out. If you
15
        think I can be of assistance in that, you let me know.
16
                  UNIDENTIFIED SPEAKER: Your Honor, (indiscernible)
17
        this could be either on the record or off the record, and this
18
        is (indiscernible).
19
                  THE COURT: We're on right now.
20
                  UNIDENTIFIED SPEAKER: Oh, that's fine.
2.1
                  THE COURT: Yeah.
22
                  UNIDENTIFIED SPEAKER: I'm an observer to what's
23
        going on, but it seems to me that if Your Honor were
24
        (indiscernible) and it had time, it may be helpful for Your
25
        Honor to help to resolve (indiscernible).
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                  THE COURT: Well, I'm available when called.
 2
        Thanks, everybody. Have a good day.
 3
             (Proceedings concluded at 12:56 p.m.)
 4
             I, CHRISTINE FIORE, court-approved transcriber and
 5
 6
        certified electronic reporter and transcriber, certify that
 7
        the foregoing is a correct transcript from the official
        electronic sound recording of the proceedings in the above-
 8
 9
        entitled matter.
10
             Christine Fiere
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                                                 April 2, 2018
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        Christine Fiore, CERT
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